# EXECUTIVE SUMMARY

## I Introduction

**1.** This Report includes important audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 619(3) (b) of the Companies Act, 1956 or the statutes governing the particular Corporations.

**2.** The concept of thematic study was introduced during the year 2008-09 to shift to system based quality audit reporting using risk based audit approach. The Report contains 15 theme based audit observations and 49 individual audit observations relating to 44 PSUs under 16 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working, to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 34 observations were not received even as this report was being finalised. Earlier, the draft observations were sent to the Management of the PSUs concerned and their replies were considered while finalising this report.

**3.** The paragraphs included in this Report relate to the PSUs under the administrative control of the following Ministries/Departments of the Government of India:

| Ministry/Department (PSUs commented upon) | Number of paragraphs | Number of thematic studies | Number of paragraphs / thematic studies in respect of which Ministry reply was awaited |
|---|---|---|---|
| 1. Atomic Energy (ECIL , NPCIL) | 2 | - | 1 |
| 2. Civil Aviation (AIL, AASL, AAI) | 4 | 1 | 5 |
| 3. Coal (SECL, WCL) | 2 | - | - |
| 4. Commerce and Industry (STCL) | 1 | - | - |
| 5. Communications and Information Technology (BSNL, MTNL) | 4 | 1 | 3 |
| 6. Consumer Affairs, Food and Public Distribution (CWC, FCI) | 3 | - | 2 |
| 7. Defence | 2 | - | 1 |

| | | | |
|---|---|---|---|
| (BEL, HAL) | | | |
| 8. Finance (GICL, NICL, NIACL, OICL, UIICL) | 4 | 2 | 2 |
| 9. Heavy Industries & Public Enterprises (BHEL, NSCFDC, NBCFDC, NMDFC, NSTFDC, NRDC) | 3 | 1 | 3 |
| 10. Mines (NALCO) | 1 | 1 | 2 |
| 11. Petroleum and Natural Gas (Balmer & Lawrie, BPCL, HPCL, CPCL, GAIL, ONGC) | 10 | 1 | 5 |
| 12. Power (BPSCL, DVC, NTPC, PGCIL, RGPPL) | 4 | 2 | 1 |
| 13. Road Transport and Highways (NHAI) | 3 | 1 | 4 |
| 14. Shipping (DCIL, SCIL) | 1 | 2 | 3 |
| 15. Steel (KIOCL, RINL, SAIL) | 5 | 2 | 1 |
| 16. Textiles (BICL) | - | 1 | - |
| **Total** | **49** | **15** | **34** |

**4.** Total financial implication of audit observations included in 15 thematic studies was ₹ 1646.21 crore.

**5.** Individual Audit observations in this Report are broadly of the following nature:

❖ Non-compliance with rules, directives, procedures, terms and conditions of the contract etc. involving ₹ 858.66 crore in 11 paras.

❖ Non-safeguarding of financial interest of organisations involving ₹ 543.14 crore in 20 paras.

❖ Defective/deficient planning involving ₹ 1350.55 crore in 15 paras.

❖ Inadequate/deficient monitoring involving ₹ 15.52 crore in one para.

❖ Non-realisation/ partial realisation of objectives involving ₹ 275.94 crore in two paras.

**6.** The Report also contains a para relating to recoveries of ₹ 83.83 crore made by 11 PSUs and another para relating to corrections/rectifications by four PSUs at the instance of Audit.

## II Highlights of significant paras included in the Report are given below:

The Cabinet Committee on Economic Affairs (CCEA) while granting approval in December 2000, to provide four lane connectivity to the major ports in the country on BOT basis through SPVs, had directed National Highways Authority of India to award contracts for Port Road Connectivity (PRC) projects by March 2002. Accordingly, these projects were expected to be completed within a period of 2-3 years of award of contract. NHAI/SPVs, however, did not prepare Corporate/ Strategic Plan for timely implementation of these projects. Delay in formation of SPVs and award of contracts was observed in various projects. Resultantly, none of the projects was completed by the scheduled completion date. Out of total nine projects, only four were completed so far with delays ranging from 12 months (JNPT Phase-I) to 53 months (Cochin) and remaining five projects were yet to be completed (December 2011). At Mormugao and Cochin ports, a road stretch of 1.8 kms and 10 kms, respectively, at the port end could not be upgraded due to non incorporation of these stretches in respective DPRs. Thus upgraded road connectivity to Mormugao and Cochin Ports could not be established. Further, due to ineffective toll collection operations of SPVs, toll collection was either delayed or suspended and SPVs sustained revenue loss of ₹ 127.68 crore. Potential loss of toll revenue, due to delay in completion of PRC projects, worked out to ₹ 873.85 crore (December 2011).

**(*Para No. 13.1)***

Due to non-enforcement of contractual terms regarding supplies of imported coal at the optimum landed cost, NTPC Limited had to incur an avoidable expenditure of ₹ 698.81 crore during 2008-2011 on supplies of coal through routes other than optimum routes.

***(Para No.12.4)***

The Oriental Insurance Company Limited issued credit insurance policies in violation of IRDA instructions, re-insurance program and insurance principles. Besides, there was significant delay in appointment of surveyors, receipt of survey reports and processing of the claims, which led to further insurance cover by the Company to the benefit of M/s Paramount Airways by ₹ 399.24 crore during the years 2005-06 to 2009-10. Blatant violation of the IRDA instructions coupled with undue delay in processing and finalization of the claims of banks was indicative of absence of proper systemic controls within the Company and considering the fact of several procedural and substantive irregularities on the part of the Company, nexus between Paramount Airways, the banks and the Company may not be ruled out.

***(Para No. 8.5)***

GAIL (India) Limited supplied natural gas at subsidised rates, in deviation of the Ministry's directives, to ineligible consumers generating and supplying electricity to their consumers at commercial rates through the grid of Tamil Nadu Electricity Board. This led to under recovery of ₹ 246.16 crore in Gas Pool Account for the period from April 2006 to March 2011, undue benefit to such producers to that extent and depriving eligible consumers of subsidised/Administered Price Mechanism gas.

***(Para No. 11.5)***

Rashtriya Ispat Nigam Limited produces steel in its three million tonne steel plant at Visakhapatnam and has its own marketing set-up. The turnover is mainly from domestic market consisting of normal sales on the basis of monthly operating prices fixed by the Company, E-auction sales and negotiated sales.

Audit observed structural deficiencies in the incentives schemes operated by the Company due to passing of discounts on slab basis instead of incremental basis. As a result, discount of ₹ 33.93 crore was excessively passed to buyers.

Audit further noticed certain deficiencies in actual sales operation of normal sales such as sale of products below the market price, delay in effecting revision of prices, applying pre-revised prices on dispatches affected on subsequent day and extending price reduction retrospectively. Resultantly the Company lost revenue to the tune of ₹ 137.72 crore.

The Company had no procedure for negotiated sales which resulted in short realisation of ₹ 37.73 crore due to sale of products below the applicable operating price. Also the Company was put to loss of ₹ 1.17 crore by not fixing the reserve price for E-auction of secondary products.

***(Para No. 15.3)***

Oil and Natural Gas Corporation Limited failed to take a holistic view of its space requirements. As a result of piecemeal acquisition of land for office building during June 2004 to July 2007, the Company incurred extra expenditure of ₹ 204.33 crore on increase in offer price of land, penalty for time extension for constructing the office building, stamp duty on swapping of two plots separated by a road for two adjacent plots.

***(Para No. 11.9)***

Central Warehousing Corporation did not dispose off time-barred bonded goods ranging from two to twenty six years which resulted in non-realisation of storage charges amounting to ₹ 167.29 crore upto 31 March 2011.

***(Para No. 6.1)***

Dredging Corporation of India provides integrated dredging services to ports, Indian Navy, Shipyards and others through two types of dredgers, viz, Cutter Suction Dredgers (CSDs) and Trailer Suction Hopper Dredgers (TSHDs). The expenditure on fuel and lubricants incurred by the Company constitutes, on an average, 39% of the total operational expenses. For the review, a sample of expenditure on fuel on all the 10 TSHDs owned and three TSHDs hired by the Company that constituted 91-98 % of the total cost of fuel and lubricants, was selected.

Audit observed that, the MoU norms for fuel consumption were not based on a scientific study. These were much higher than the previous year's consumption as well as the builder's norms which led to an excess expenditure of ₹ 85.71 crore. There was excess issue of fuel amounting to ₹ 24.97 crore to the chartered TSHDs by not restricting the supply of fuel rate proportionate to their percentage of achievement.

Audit further noticed that, the Company procured its entire fuel requirement from IOCL alone without inviting open tenders deviating from its own Purchase Procedures. Due to this flawed practice, the Company deprived itself of negotiating better price and payment terms and incurred an opportunity loss of ₹ 9.98 crore. Gaps in issue and consumption of the fuel and lubricants amounting to ₹ 18.66 crore also pointed out lack of internal control measures.

There were delays in raising the fuel escalation claims ranging from 10 days to 319 days. Further there was no contractual provision for levy of interest on delayed payment of fuel escalation claim resulting in interest loss of ₹ 25.31 crore.

***(Para No. 14.1)***

Bharat Electronics Limited (Company) accepted to execute Convergent Billing and Customer Relationship Management project of MTNL within twelve months from the date of purchase order (February 2006). The contract recognised that in the likelihood of the change in System Requirement Specifications, the changes were to be implemented by the Company without any additional financial implication. Bid for the Project was made by Company after entering into a Memorandum of Understanding with various partners including IBM which had expertise in System Integration (SI) of CRM projects. Company, however, could not ensure performance of SI by IBM. Further, Company failed to incorporate back to back payment terms, corresponding with payment terms of MTNL, with its vendors. Thus, as a result of accepting to execute a turnkey project having fixed delivery schedule coupled with unlimited scope for expansion, failure to ensure performance of SI by IBM and failure to incorporate back to back payment terms with its vendors, the Company failed to execute the above project of MTNL even after five years of its scheduled completion date that resulted in blocking of ₹ 144.85 crore for more than four years (March, 2012).

***(Para No.7.1)***

KIOCL Limited (the Company) entered (August 2005) into a long term agreement with National Mineral Development Corporation Limited for procurement of iron ore fines from its Donimalai Mines in Karnataka for the period from 2005-06 to 2009-10. The agreement provided guaranteed specification for Fe content of 64 *per cent* in iron ore fines and adjustment of price accordingly. Acceptance of ore with lower Fe content by the Company without exercising the option of getting the umpire sample tested in a neutral laboratory as per provisions of the contract resulted in excess payment of ₹ 23 crore during the period from April 2008 to March 2011. Further, the Company had not fixed any norms for transit and handling losses to serve as a benchmark. The Company had suffered a loss of ₹ 105.24 crore on account of short receipt of quantity during the period from 2005-06 to 2010-11.

***(Para No.15.1)***

British India Corporation Limited failed to have proper due diligence on the valuation of the properties and the sales process of land. There was unnecessary hurry in concluding the sales of land by getting the 'agreement to sale' registered with the buyers ignoring the legal advice and the warnings of the State Government, which led to loss of ₹ 109.03 crore to the Company on account of increase in value of the properties in 2011 beyond the bid price of 2003, besides the non-generation of fund for modernization of the plant and machineries.

***(Para No. 16.1)***

Food Corporation of India reimbursed mandi labour charges against the paddy procured at farm gate/mill point which resulted in excess payment of ₹ 107.95 crore to private rice millers during KMS 2007-08 to KMS 2009-10.

***(Para No. 6.2)***

Failure of National Highways Authority of India to recover penalty for delayed completion of work as per Concession Agreements resulted in non-realisation of ₹ 90.30 crore from Concessionaires and avoidable loss of ₹ 17.15 crore (till December 2011) towards interest on the above amount.

***(Para No.13.2)***

The contracts for procurement of Low Ash Metallurgical (LAM) coke of the KIOCL Limited were finalized through spot negotiations by an Empowered Joint Committee (EJC) of the Ministry of Steel. With coke prices rising in the global market, two meetings of EJC were held in February 2008 and June 2008. Against projected requirement of eight and five shipments for EJC meetings held in February 2008 and June 2008, the Company placed orders for two shipments and three shipments respectively. The decision of not procuring a third shipment of LAM coke at lower rates offered during the EJC meeting held in February 2008, despite having storage capacity to stock three shipments, resulted in extra expenditure of ₹ 54.85 crore. Further, absence of proper inventory management resulted in shortage of stock of 9,144.153 MT LAM coke valued at ₹ 32.41 crore for which no responsibility was fixed and the write-off accorded was not based on proper justification.

***(Para No. 15.2)***

Improper planning and consequent excess procurement of equipment by Bharat Sanchar Nigam Limited to expand Mobile Switching Centre based Wireless in Local Loop System led to avoidable expenditure of ₹ 65.51 crore.

***(Para No. 5.1)***

The total investments (at cost) of The New India Assurance Company Limited as on 31 March 2011 stood at ₹ 13604 crore. Investment in equity constituted 20 percent of the total investments in the market. Upon review of the investment function particularly with reference to investment in equities, non-compliance to investment regulations framed by the Insurance Regulatory and Development Authority were observed. It was further observed that the Company did not have a stop loss policy due to which the market value of equity shares of 29 companies with a book value of ₹ 94.92 crore held by it, deteriorated beyond 25 *per cent* and upto 94.75 *per cent* resulting in erosion of the value to the extent of ₹ 47.02 crore (March 2011). An instance of non-compliance of Investment Policy while deciding to not to accept an open offer made by the promoters of M/s Alfa Laval (India) Limited whose share were held by the Company was also noticed which resulted in foregoing a profit of ₹ 14.27 crore. Further, despite initiating the process of implementation of the Investment Management System in the year 2004, the Company did not have a full-fledged investment management system compliant with IRDA guidelines as on 31 March 2011.

***(Para No. 8.4)***